



USFR MEMORANDUM NO. 195

TO: School District Administrators; County School Superintendents

FROM: Magdalene D. Haggerty, Office of the Auditor General
Vicki G. Salazar, Arizona Department of Education

DATE: January 14, 2003

SUBJECT: School District Single Audits (Supersedes USFR Memorandum Nos. 158 and 168)

Districts that exceed the threshold of federal award expenditures set forth in Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are subject to the requirements of the *Single Audit Act Amendments of 1996* and the implementing regulations of the OMB, including OMB Circular No. A-133 and are required to obtain an annual single audit. Districts expending less than the amounts of federal awards stated above are subject to procedural reviews performed at the discretion of the State of Arizona, Office of the Auditor General. However, a financial statement or single audit may be accepted in lieu of a procedural review if the audit is performed in accordance with *Government Auditing Standards* and the audit firm submits a completed Uniform System of Financial Records (USFR) Compliance Questionnaire. If such an audit is performed, the audit costs cannot be charged to federal programs or used to increase the district's base support level.

Districts subject to the *Single Audit Act Amendments of 1996* must submit the audit reporting package and data collection form, as required by OMB Circular No. A-133, within 9 months after fiscal year-end or 30 days after the reports are issued to the district, whichever is sooner. (A copy of the data collection form can be downloaded from the Federal Audit Clearinghouse Web site, which operates on behalf of the OMB, located at <http://harvester.census.gov/sac/>.)

Arizona Revised Statutes (A.R.S.) §§15-914(E) and 41-1279.21(A)(4) require audit contracts and the completed audit reports to be approved by the Auditor General. This Memorandum provides general guidance to districts on school district audit requirements. It includes a sample notice of request for proposals and sample request for proposals (RFP) with instructions, and a sample audit contract that can be used to procure audit services. Districts may use the enclosed samples and **should destroy previous versions**. **A copy of the proposed contract must be submitted to the Auditor General for approval before the contract is signed and any audit work begins.**

Districts may contract with an audit firm for up to 5 years. If a district contracts for a 1-year audit with the option to renew for up to 4 additional years, the cost for each of the years should be clearly specified in the original contract. Each year that the renewal option is exercised, a new contract must be submitted to the Auditor General for approval. If the district exercises its option to renew the contract, the contracted

amount in each of the subsequent option years must agree with the amounts specified in the original contract.

Changes in the scope, character, or complexity of the work may be negotiated if it is mutually agreed by the audit firm and district that changes of this nature are desirable and necessary. **Such proposed contract amendments must be authorized in writing by the school district and approved by the Auditor General, prior to the performance of work.**

A district contracting for an audit must follow the School District Procurement Rules prescribed by the Arizona State Board of Education if the estimated cost of the contracted audit services exceeds \$32,313. These rules require that competitive sealed proposals be solicited through an RFP. The enclosed sample RFP is provided for this purpose.

If the district estimates that the total cost of contracted audit services will be \$32,313 or less, it is not required to follow the School District Procurement Rules. However, the "Guidelines for Competitive Purchasing Below the Dollar Limits Required for Sealed Bids," prescribed by the USFR (pages VI-G-8 and 9) must be followed. These guidelines recommend written price quotations from at least three audit firms for audit contracts of at least \$15,000 but not more than \$32,313 and oral price quotations from at least three audit firms for audit contracts of at least \$5,000 but less than \$15,000.

It is recommended that districts use an RFP to obtain written or oral price quotations for an audit/audits even if the estimated cost is \$32,313 or less and other requirements of the School District Procurement Rules are not followed. The nature of an audit requires that certain essential information about the district and the necessary elements of the audit requirements be communicated to interested audit firms to enable them to develop a proposed work plan and reasonably estimate the cost of the audit.

If a district wishes to prepare a comprehensive annual financial report (CAFR), the sample RFP and sample contract should be modified accordingly.

A.R.S. §15-271 requires the Auditor General to inform any district failing to comply with the USFR at a satisfactory level that it has 90 days to correct the deficiencies cited by the audit firm. To assist the Auditor General in determining whether a district has established and maintained an internal control structure that complies with the USFR at a satisfactory level, the audit firm performing the audit must complete and submit the USFR Compliance Questionnaire and submit management letters the audit firm issues to the district, to the Auditor General. Each district is responsible for providing a copy of the USFR Compliance Questionnaire to the audit firm contracted to perform the district's audit.

The enclosed USFR Compliance Questionnaire has been revised to reflect changes in law, including new student attendance requirements as prescribed by A.R.S. §§15-341.01 and 15-901, Classroom Site Fund requirements prescribed by A.R.S. §15-977, and requirements regarding Building Renewal Fund monies used for preventative maintenance of facilities prescribed by A.R.S. §15-2031. In addition, questions have been added regarding capital assets for districts required to implement Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and regarding lead districts handling procurement for a group of districts. The enclosed USFR Compliance Questionnaire supersedes the Questionnaire dated

4/00 that was issued in USFR Memorandum No. 168. **The new Questionnaire must be used for audits in which the audit firm's field work is completed after the issuance date of this Memorandum.**

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require the Auditor General to ensure that completed audits are conducted in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular No. A-133, GASB Statement No. 34, if applicable; and the minimum audit standards prescribed by the Auditor General.

Accordingly, the Auditor General reviews the audit reports and selected audit working papers of audit firms performing school district audits to determine the quality of technical performance and adherence to the cited standards and OMB Circular No. A-133, and to determine whether the audit firm met the minimum audit standards prescribed by the Auditor General for completing the USFR Compliance Questionnaire.

If it is determined that an audit firm frequently has not met the auditing standards listed in the preceding paragraph and the requirements of OMB Circular No. A-133, the Auditor General may disapprove audit contracts, or suspend or debar the audit firm from contracting with school districts for audit services, pursuant to *Arizona Administrative Code* R4-44-101 et seq. The Auditor General will notify districts if and when an audit firm has been suspended or debarred.

If you have any questions or need assistance, please call the Office of the Auditor General, Accounting Services Division at (602) 553-0333, or the Arizona Department of Education, School Finance Operations Unit at (602) 542-5695.

MDH/VGS/gr

Enclosures

Instructions-Request for Proposals

Sample Notice

Sample Request for Proposals

Sample Contract

USFR Compliance Questionnaire